

PUBLIC EMPLOYEES RETIREMENT BOARD
Employee Investment Advisory Council
100 North Park
Helena MT 59601
March 28th, 2008

Kathy Samson; Council Chair with the following in attendance, called the meeting to order:
Introduction of the new secretary and introduction of the new EIAC Member, Rande Muffick.

Council Members:

Rande Muffick, Board of Investments Representative
Ed Dawes, State Employee Representative
Mary Spaulding, State Employee Representative
Ron Alles, Local Government Employee Representative
James Helgeson, Local Government Employee Representative
Lisa Smith, Local Government Employee Representative
Jim Penner, Retired Public Employee Representative

Others in attendance are as follows:

MPERA staff: Melanie Symons
401(a) & 457 Member: Garry Wheelock, MSF IT Dept.
Board Representative: Terry Smith, in attendance by phone
Wilshire representatives: Michael Schlachter and Jill Traina

Not in attendance: Kevin McRae, University System Representative

Excused:

Tom Schneider, Labor Organization Representative
Tom Bilodeau, Labor Organization Representative
Paula Stoll, State Employee Representative
Pam Fleisner, School District Employee Representative

Public Comments: Garry Wheelock spoke about the possibility of adding Country Funds or Index Funds. Garry asked that EIAC take a look at India Funds or China Funds. Garry believes that the

US is in a major recession and would like to see that the members have the ability to hedge the inflationary rate by diversifying their funds into Index funds and Country funds.

Kathy discussed the restraints that they are under through the IPS, and hopes to begin taking steps to change policy for greater flexibility.

HOUSEKEEPING ITEMS

Minutes were read and it was requested that a correction be made Re: Ron Alles` question on the Munder Small Cap in the December 20th, 2007 meeting.

Correction from 12/20/07: Ron Alles did not want to know that they are 50% + overweighed in financials; he wants a record or summary of the funds history, when and why they were offered and when and why they were dismissed. Ron would like to see some documentation when a fund is being terminated and some kind of reasoning brought to the table as to why it was chosen in the first place.

Motion to accept with the correction: Ron Alles,

Second: Rande Muffick

EIAC: Motion passed unanimously.

Market Update and December 31st, 2007 quarter end reports

Michael Schlachter addressed the public concerns about overall economic structure and recession.

1. Baby boomer demographic causing a shift in economic recession is not the common view. Some of the economic projections show that the market will drop for 20 years as people over the age of sixty will just stop saving and will move on, but at the same time that would imply that everyone under age 60 will stop saving as well.
2. What has been seen over the last year is that the U.S. has been moving into a recession, we are in fact in a recession right now, but to argue that we are in a recession due to boomer demographics is somewhat of a mismatch. The reasons are
 - a. Consumers are over extended

- b. Credit spicket was cut off and that caused some substantial dislocation in the credit markets such as;
 - i. Issues with housing.
 - ii. Issues with what the feds had to do with investment banks.

Michael states that “it really was a bubble in certain types of financial instruments in certain parts of the credit cycle, not the fact that the boomers are retiring and spending off all their life savings.” He does not discount that it could happen, but that the U.S. has not seen the first wave of that yet. This is a short lived credit cycle and Michael believes it will probably resolve itself by the end of the year and we will move on from there.

3. RE: Country funds

- a. Members are interested
- b. There are an enormous amount of Country funds available
- c. Alternative: would be to have an Emerging Markets Fund which would:
 - i. Would open the door for members to developing economies without opening the door to 15 different Country funds.
 - ii. Give members the opportunity for Investing in American companies that do business in China and India and other countries, aka; riskier funds.

457 Quarterly Report:

Returns are weak, as of December 2007. Bad year for the stock market. Bond index shows a better return this year than the stock market, over longer periods of time stocks out perform bonds. Non U.S. markets ACWI which includes all country emerging markets, and the EAFE index, which is just developed markets, return 10% and 6%, respectively, better than the U.S. stock market. This is probably due the local market and local currency returns. The stock markets have done a little better around the world than they have done in the U.S., but most of this is driven by currency depreciation.

The U.S. dollar has dropped about 10% in 2007 against the Euro and fell about 6% against the pound.

Emerging markets have been the single best performing asset class over the last several years.

They have consistently out performed other asset classes since 2001.

Value stocks have been out performing growth stocks. The value stocks have been out performing growth for a period of 7 years, but in the past growth stocks out performed value for a number of years. In the 4th quarter of 2007, large cap growth gained by 5%. This is why we need to have a fair number of growth and value options in all the various asset categories, so members don't find themselves being caught in one side or the other.

Fixed income sectors have had pretty consistent returns.

All the investment grade sectors had similar returns.

Bonds have had good returns except High Yield Bonds which are down.

Consultant comments:

Lehman Brothers High Yield Fund has failed 2 out of 3 criteria to retain. It could be left on probation or terminated. Considering the downward credit cycle that we are in, this fund could warrant remaining on probation.

401(a) DCRP Report:

On probation:

Oakmark Fund, ratings are 2 stars and 2 stars and clearly lags the mean in both cases.

State Street Global advised termination.

The question is, why would you fire SSGA when it is out performing the Oakmark Fund, which has been placed on probation?

Reason:

- a. Oakmark is a value fund and should have value listed in its name. This is a growth market, so the value funds are not performing as well in comparison.
- b. SSGA is a growth fund, and is doing better right now.
- c. A true core Fund needs to be added and a better delineation of what is truly value and truly growth is recommended.

There are replacement options for both of these funds.

Comments: EIAC would like to see a growth index to compare and a value Index.

Also, EIAC would like the next reports to show whole fund assets available.

New manager search results

Small Cap 457 and 410(a) Plan

Motion: To recommend Target Small Cap Value fund to replace Munder in 457 Plan and Hotchkis & Wiley in 401(a) Plan.

Motion forward: Ron Alles

Second: Jim Helgeson

Rationale for Motion: Diversification, Performance and consistency in staying above the benchmark. Also discussed, Target was chosen over Columbia due to Targets higher information ratio and Target has a lower portfolio turnover.

Comment from Terry: He supports the motion

Comment from Gary: Personally, doesn't have the interest in the Small Cap at this time

Opposed: None

Mid Cap Fund

Motion: Recommend Columbia to replace Hotchkis & Wiley Mid Cap Value in 457 Plan.

Motion Forward: Ed Dawes based on Jill's recommendation and Michaels confirmation.

Second: Lisa Smith

Rational for Motion: Top rank for 1, 5, and 10 year periods. Benchmark weights are adhered to, tracking error of 3 to 6% which is very good for a Mid Cap Value.

Comments: EIAC went to a lot of trouble to pick their consultants their recommendations should be listen to.

Comments: Terry would like to see the same funds in both plans, such as Janus, as an investor.

Comments: Melanie as a 457 member would like to have her 457 investment options judged independently and not based on lesser offerings in a different plan.

Opposed: None

International Fund

Motion: To recommend Principal Growth to replace SSGA in the 401(a)

Motion Forward: Ron Alles

Second: Jim Penner

Rational for Motion: Highest ranking, open, no sales vote, 4 out of 5 years beat the benchmarks. Principle had the highest information ratio. Focuses on Growth, conduct rigorous financial analysis. Turn over is 129%, they buy, they grow, they sell. It has zero emerging market exposure, which shows that it was able to have superior returns within the developed markets.

Comments: Adding a core fund would be a good recommendation for the Board, at a later date.

Opposed: None

Two agenda items not discussed due to time constraints are:

1. Default investment option in the 457 plan
2. General discussion on the investment option structure and what direction we may want to go.

Final Comments:

Motion to address the final two agenda items in the next meeting. Propose next meeting for sometime in May. QDIA information upon Kathy's return from summit. Target date funds, second best default option, according to Michael Schlachter.

CLOSING BUSINESS

Kathy Samson adjourned the meeting. None opposed